OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

Fourth Quarter 2016

"SHAPING DECISION-MAKING"

Situational awareness is critical for any investor. We must recognize the prevalent risks that exist across the broader economic landscape. Approaching the Presidential election in November, we, along with the rest of the investment community, continue to analyze the market impact of potential outcomes. Against this uncertain backdrop, maintaining a long-term focus is critical as investors address major events on the horizon.

POLITICS & CAPITAL MARKETS:

Politics directly and indirectly influence capital markets by shaping the decision-making of individuals as well as effecting business resource allocation activities. Furthermore, the enhancement or disruption of capital market flows can be directly tied to political activity. Consequently, balance is required as policy initiatives are crafted and implemented. Allowing the regulatory pendulum to swing too far to either extreme becomes unhealthy. A free-wheeling, laissez faire approach can be as harmful as the oppressive nature of over-regulation. Unintended consequences, the reality of political initiatives, ultimately create winners and losers in the marketplace.

POLITICS & ECONOMIC REALITIES:

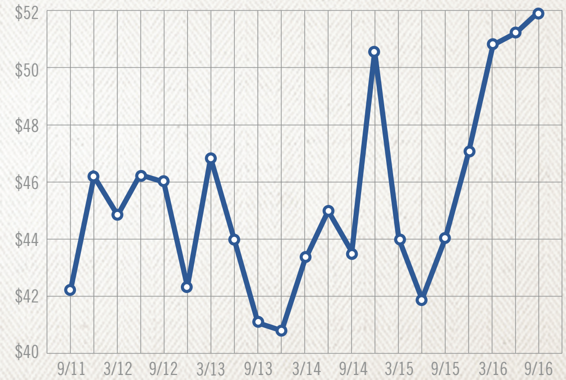
The crescendo of political polarization is the direct result of economic underperformance. The long-run economic growth rate has averaged approximately 3%; however, economic growth since the Great Recession of 2008-09 averaged only 2%. Wide reaching implications of this rather anemic growth environment include slower job growth, sub-par wage growth, and a growing income disparity between participants of the economic system. The absence of robust opportunities elevated voter discontent. The election results will inevitably influence the debate on how the political leaders fundamentally handle the domestic economy, wage growth, and position the U.S. on the global stage.

ECONOMY CYCLE AND THE CONSUMER:

The economic environment faces headwinds and questions about sustainability of growth, but ***consumer spending trends should be sufficient to prevent the domestic economy from slipping into recession.*** Economic cycles always prevail and the duration (length) and magnitude (rate of change) are differentiating factors of any cycle. The current economic cycle continues to grind forward as data points, while mixed, confirm a slow growing environment. In addition to accommodative monetary policy, the consumer remains the primary source of support because of heightened confidence, greater financial flexibility, and the willingness to spend and consume.

Stock Focus: Southern Co.

Southern Company, incorporated in 1945, has been a dominant energy producer in the Southeastern United States for over a century, and has rewarded shareholders with 68 years of uninterrupted dividends. The utility company's regulated businesses serve 4.5 million customers throughout the states in which it operates. A healthy dividend covered by recession-resistant services and a favorable regulatory environment reinforce our positive outlook for the company.



Stock Symbol: **SO**

Market Capitalization: **$51B**

Dividend Yield: **4.3%**

Long Term Earnings: **4.0%**

2016 P/E: **17.8x**

Return on Equity: **11.4%**

CORPORATIONS & GOVERNMENT INFLUENCES:

A key component of economic growth, corporate spending remains anemic even though cash as a percent of assets on balance sheets indicates financial strength. Declining top-line revenues, lower earnings, and slower productivity growth fueled a cautious tone with respect to capital expenditures and infrastructure investment. Government spending also should be factored into stimulus efforts. Every new President since the Kennedy Administration has implemented a sizable fiscal stimulus package designed to ignite economic growth. Consequently, ***fiscal policy, including spending on infrastructure projects, could be a positive influence on the domestic economy next year.***

MONETARY POLICY:

The Federal Reserve continues to impact the capital markets through unprecedented monetary policy accommodation. While policy makers desire to raise interest rates, their decision remains highly data dependent. ***The timing of rate increases remains uncertain because of the current economic conditions that continue to produce modest growth***. Fueling interest rate uncertainty is the Federal Reserve's addition of greater transparency into their policy communications, which also influences the actions of market participants.

PORTFOLIO STRATEGY:

We continue to believe that ***building a stable, ever-growing cash flow stream strengthens a portfolio during all market cycles.*** Portfolios with consistent cash flows achieved through stock dividends and fixed income coupon payments are a measured and prudent approach to dealing with volatile markets. Also, focusing on a growing stream of annual cash flows allows investors to fight against inflation and the erosion of purchasing power.

OUTLOOK:

How much are you willing to pay for $1 of earnings? In short, it depends. The markets trade at all-time highs even in the face of economic and political uncertainty. Value is derived from a company's ability to steadily generate cash flows and earnings. In today's environment, a premium is assigned to those companies that consistently execute their business models. High quality, dividend-paying stocks garner a premium valuation because of the greater earnings predictability, enhanced financial discipline and a commitment to distributing a growing steam of cash flows to the shareholder.